



CITY OF WILLIAMSBURG

MEMORANDUM

TO: Mayor and City Council

DATE: March 15, 2007

SUBJECT: City Manager's Budget Message

INTRODUCTION



In Williamsburg's first "State of the City" address last November, Mayor Zeidler asserted,

"Financially, the city remains strong...at the end of the fiscal year there was \$18 million in (general) fund balance for operating reserves and future capital needs. We have \$13.8 million in outstanding debt principal."

The goal of next year's budget is to accomplish the many objectives of city government while maintaining the city's healthy financial condition as summed up by the Mayor's statement.

The State of the City address, and last year's Budget Message, both identified a number of key trends on which will turn the city's financial future. Looking at those trends in light of the proposed budget for fiscal 2008, the following points stand out:

- The city's commercial tax base has surged. Increases in land values, reassessments, and new construction will increase the commercial land book values by \$140 million, or 27%, in just one year. (Reassessments alone make up 17.3% of that increase.) In contrast, residential values, which had climbed rapidly in the past few years, are now leveling off with a 7.2% rise expected due to reassessments. (The overall increase in taxable value of real estate in the city is expected to be 14.3% in FY 08).

- Tourism driven revenues are coming out of a five year slump. Based on performance over the last nine months, we are projecting a 7.2% increase in transient occupancy (room) taxes, and a 5.6% increase in prepared food (meal) taxes, next year. Those projections could be exceeded if the many investments in tourism programming and promotion in the year of Jamestown 2007 pay off as hoped.
- Operating cost increases are being driven by education and public safety. We are projecting school costs up by 13.5%; adult and juvenile detention up by 10.6%; and police and fire up by 6.1%. The trend toward higher school costs in particular is expected to continue.

Looking now at the overall picture for the year ahead, the Proposed **General Fund Operating Budget** can be summarized by:

- Projected Revenues of **\$33,141,377**, up by **8.1%**.
- Planned Spending of **\$33,332,575**, up by **8.1%**.
- Use of Reserves for current spending of **\$191,198**.
- No Change in Tax Rates.
- Personnel increase from 196 to **200**.
- Allowance for merit pay increases averaging **4.0%**.

In the **Utility Budget**, recommended is a **10%** Water and Sewer rate increase, from \$3.00 to **\$3.30** per one thousand gallons, beginning July 2007, per the **Five Year Water and Sewer Rate Analysis**.

In the General Fund **Capital Improvement Program**, a total of **\$11,882,974** is projected in new capital spending, including debt service. Important capital projects include the city share of a new middle school and elementary school, construction of north Quarterpath Road, and a new Emergency Operations Center.

The combined total of the three funds – General Operating Fund, Utility Fund, Sales Tax/Capital Fund – amounts to **\$50,993,029**.

The proposed revenue estimates and spending plan, if executed exactly as projected in the proposed FY 2008 budget, would result in the following fund balances on **June 30, 2008**:

General Fund Balance	\$13,265,224
Utility Fund Working Capital	\$ 4,492,633
Total Reserves on 6/30/08	\$17,757,857

With the above as an overview, the remainder of the Budget Message discusses a number of issues that are particularly helpful in understanding and reviewing the proposed budget, beginning with General Fund revenue projections.

REVENUE PROJECTIONS

Next year (FY 2008) we forecast General Fund revenues of \$33,141,377, an 8.1% increase over the current year (FY 2007) budget amount. Behind the Budget Guide tab is a detailed explanation of revenues, explaining the legal basis and ten year trends of all revenue sources. The following is a summary of significant revenue changes in next year's budget:

1. **Property Taxes.** Property tax projections are based on a total anticipated value of real estate of \$1.768 billion dollars, an increase from current land book values of 10.6% due to reassessment, and 14.3% total. Assuming no change in the tax rate of \$.54 per hundred dollars of assessed value, we estimate real property tax collections of \$9,100,000 next year. The chart below details the change anticipated in real estate values:

<u>\$ in Millions</u>	<u>FY 2007 Actual Values</u>	<u>FY 2008 Estimated Reassessment</u>	<u>Change due to Reassessment</u>	<u>FY 2008 Estimated New Construction</u>	<u>FY 2008 Totals</u>
Residential	913.1	978.6	7.2%	7.2	985.9
Commercial	526.4	617.3	17.3%	49.4	666.7
Multi-Family	<u>107.7</u>	<u>114.9</u>	<u>6.7%</u>	<u>0.6</u>	<u>115.5</u>
Totals	1,547.2	1,710.8	10.6%	57.3	1,768.1

As noted above, next year commercial reassessments and new construction will outperform residential growth by a considerable amount. This is good news both for homeownership taxpayers and for the city's tax base.

Other property taxes include personal property and business property. These categories are showing modest growth. All property taxes (real and tangible) taken together are expected to generate \$11,851,700.

Property taxes account for about 36% of General Fund revenue, compared to an average of 50% to 60% or more in most jurisdictions in Virginia. This means that rising property tax receipts are not as helpful to the bottom line as they are in most other localities, but still critical to balancing the budget in 2008.

2. **Other Local Taxes.** Other local sources of taxation include various consumer utility taxes and franchise fees, business licenses, transient lodging and prepared food or "room and meal" taxes. The estimate for room and meal tax collections is projected to total \$4,100,000 for room tax, a 7.2% increase; and \$5,780,000 for meal tax, a 5.6% increase, over last year's adopted budget. These estimates reflect a long awaited turn around in the performance of the city's tourism economy. The room tax estimate does not include the \$2.00 destination marketing surcharge for additional tourism promotion, which is a separate line item in the budget of \$1.8 million. With 2006 as the turn around year, and all the effort going into the Jamestown 2007 Commemoration, we can hope to outperform the estimates contained in this proposed budget.



Williamsburg Lodge

Taken together, all local sources of taxation are expected to generate \$26,967,300, an 8.9% increase over the current year budget.

3. **User Fees.** User fees include various license and permit fees, including building permits, and various charges for service. Licenses and Permits are projected to hold steady at \$250,000.
4. **Fines and Forfeitures.** This category covers court fines – mostly for traffic violations, parking fines, and code violation fines. It is expected to increase by 4.6% to \$242,000.
5. **Revenue From Use of Money and Property.** The interest earning estimates, up 22.6%, (\$950,000 in the General Fund and \$200,000 in the Utility Fund) are based on assumed earnings of 5.0% on daily accounts and on longer-term accounts. Additionally, the property rental estimate is \$509,700, a 3.7% increase, covering the Community Building, Transportation Center, City Square, and the Prince George Parking Garage.
6. **Miscellaneous.** Found in this category are the Emergency Medical Transport fees enacted two years ago. They are projected to return \$250,000 – all of which is earmarked for EMS service.

7. **Revenue From the Commonwealth.** Revenue from the state government in the amount of \$2,819,971, which includes support for constitutional officers and both categorical and non-categorical aid, are estimated to increase by 3.9%. The estimate of Sales Tax for Education of \$790,000 is level with the estimate last year.

EXPENDITURE ISSUES

Next year we have proposed General Fund operating expenditures of \$ 33,332,575, an increase of 8.1% over the current year adopted budget. Broken down in four large categories:

	<u>FY 2007 Adopted Budget</u>	<u>FY 2008 Proposed Budget</u>	<u>Percent Increase/ (Decrease)</u>
City Departments	\$ 16,535,606	\$17,818,908	7.8%
Constitutional Officers and Judicial	\$ 1,715,055	\$ 1,894,905	10.5%
Education and Library	\$ 7,379,140	\$8,298,967	12.5%
Outside Agencies and Health	\$ 5,210,142	\$5,319,795	2.1%

The Proposed Budget recommends a net increase of four personnel positions in the General Fund, and none in the Utility Fund. If adopted, total full time equivalent city positions in both funds will stand at 200. Changes in expenditures worthy of note are:

1. **Salary Ranges and Pay.** The city's Merit Pay Plan gives management the flexibility to target increases where most needed. Our goal should be to remain as competitive as possible on compensation within the limits of revenue growth. Therefore, I am recommending the following:
 - Increase in Pay Ranges of 4.0%, in order to account for the rise in wages to keep city pay ranges reasonably competitive. The rise in the Consumer Price Index in calendar year 2006 was 2.5%. (The range increase does not in itself change anyone's salary and therefore has no direct impact on the budget.)
 - Average Merit Increase allowance of 4.0%, costing \$348,000 in salary increases, to be applied per the city's Merit Pay Plan as detailed in the Personnel Manual.
 - The merit increase will hold our employees on average to 97.0% of the middle of their salary ranges.

2. **Personnel Positions.** As explained in more detail under the departmental headings, the total number of positions in the city increases from 196 to 200 in the proposed budget:

<u>DEPARTMENT</u>	<u>POSITION</u>	<u>GRADE</u>
City Attorney	Assistant City Attorney	11
Finance Department	Financial Technician	5
Police Department	Police Officer	6
Fire Department	Firefighter	6

3. **Health Coverage.** The city's health plan is largely self-insured. Anthem is paid a set amount to administer the plan, but the city keeps savings when actual costs fall below the "premium," and pays more when costs exceed the premium. That liability, however, is capped at 125% of premiums through excess insurance. Savings to date have created a reserve, \$473,803 as of the end of FY 2006, to fund losses should losses exceed the amount budgeted in any given year. Therefore, we budget for the expected loss only. Based on experience so far this year, we have included a 14.1% increase in funds budgeted for health insurance and the dental reimbursement program over the current year budget in the total amount of \$1,130,825.
4. **Virginia Retirement System.** VRS sets the contribution rate for the city based on biennial actuarial studies. Our rate beginning July 1, 2007 will remain at 16.27%. Based on our projected payroll next year, we expect to pay \$1,485,346 to fund employee VRS retirements, a 6.7% increase over the current budget.
5. **Non-Departmental.** This budgetary account includes several citywide expenses, such as, a General Fund contingency of \$100,000, and an Economic Development Contingency of \$50,000. Citywide training, performance measurement, citizen survey and benefit programs are also included.
6. **City Attorney.** This year plans are afoot to end the long standing "contractual" city attorney arrangement and bring the operation in-house, a detailed line item budget of \$268,645 provides for a full time employment contract with City Attorney Joe Phillips, and creates a full time permanent position of Assistant City Attorney. The budget also contemplates renting office space.
7. **Finance Department.** The budget contains one additional entry-level position to allow payroll functions now in the City Manager's office to shift to the Finance Department. This will free up the Human Resources Specialist to undertake more demanding HR work.
8. **Electoral Board.** An increase of 67% to \$38,237 is explained by the expectation of up to five elections in FY 08.

9. **Joint Courthouse and Judicial Functions.** The Joint Courthouse Agreement, dated December 1996, between the city and James City County, governs cost sharing not only for taking care of the new courthouse, but for judicial functions related to the Courthouse, including: Circuit Court, General District Court, Juvenile and Domestic Relations Court, Clerk of the Circuit Court, Commonwealth Attorney, and City/County Sheriff. The Courthouse Agreement provides that the city and county will determine population based on the annually updated Hampton Roads Data Book published by the Hampton Roads Planning District Commission. The estimate of city cost is \$370,000, up 12.1% from the prior year.
10. **Police.** The Police Department proposed budget is \$4,206,573, up from the current year by 5.5%. One entry-level police patrol officer has been added to provide extra manpower to the daily 3 p.m. to 3 a.m. “power shift.” The Chief hopes to add another position for the same purpose in FY 09.
11. **Parking Garage.** Based on experience in the first three years of operation, we have set the Prince George Parking Garage operating budget at \$127,021. This expense is covered by \$210,000 in projected parking garage revenues. Revenues in excess of operating costs will help pay debt service on the structure.



12. **Fire.** The Fire Department proposed budget is \$3,286,527, up from the current year by 7.1%. Over the past two years, four new firefighter/EMT positions have been added. These firefighters have helped the fire department maintain adequate on duty staffing given the constant pressure of time away for leave and training. The four positions were also an investment in staffing which will be required to open a future auxiliary fire station (nine positions total) on Ironbound Road adjacent to High Street. This year a fifth position is recommended to continue progress toward the nine positions required to open the High Street station a few years from now.
13. **Regional Jail and Youth Detention.** Funding for the city’s share of the Virginia Peninsula Regional Jail is expected to be \$935,810, an increase of 9.8% from the current budget. The city share of jail costs is based on an average usage rate of 18.5% over the past five years. Each member jurisdiction (Williamsburg, James City, York and Poquoson) pays for their share of the inmate population based on the location where the offense occurred and the arresting authority. I expect the city’s

share to continue to climb over the next few years as the “five year averaging” formula catches up with our current inmate population which is about 25% of the total. Other detention related expenditures are also rising rapidly: the Middle Peninsula Juvenile Detention Commission at \$140,000, which is projected to increase by 16.4%; and Colonial Group Home Commission at \$71,244, which is proposed to increase by 11.20%.

14. **Information Systems.** This budget covers the contracts for hardware and software maintenance for the city’s information systems, telecommunications systems, copiers, and video system, including Channel 48. The budget includes funding for the annual PC replacement program, and maintenance of our GIS system, for a total of \$428,260, a 42% increase from the prior year. The increased funding, held back in the prior year budget, will allow expansion of the GIS system, improvements to the city website, hardware upgrades and systems training.
15. **Public Works.** Public Works divisional budgets totaling \$4,064,865 (Engineering, Streets, Refuse Collection, Landscape, Cemetery, Mosquito Control, Facilities Maintenance) average 4.8% above the current year amount. Within this budget is the street resurfacing annual commitment set at \$470,000. The cost of refuse collection is estimated at \$881,200, up 8.8% from the prior year’s budget primarily due to the increase expected in the VPSSA curbside recycling contract.
16. **Human Services.** Salaries in the Human Services Department are funded in part by the Commonwealth, but the department is a city operation. Local funding supplements State funding to allow the department to provide a full array of human services. The local budget for next year is estimated at \$647,014, a 7.7% increase over the prior year.

OUTSIDE AGENCY ISSUES

Nearly one-half of the city's General Fund budget goes to agencies and activities not under City Council's direct operational control. Funding relationships are often complex, and vary in degrees of funding discretion possible from year to year. The "Notes on Funding Relationship," contained under the Budget Guide tab, help explain the city's role in providing financial support to these agencies and activities.

Background documentation from outside agencies is provided in the Appendix of the Proposed Budget, or provided under separate cover, as in the case of the School and the Library budgets.

A number of issues concerning outside agency funding requests for the coming year need to be highlighted:

1. **Health Services.** The four agencies named below provide health services to city residents, workers and visitors. The total recommended funding for FY 08 is \$470,713, an increase of 2.5% over the current year.

The Peninsula Health District budget request to the city is \$130,420, a 2.6% decrease from the current year.

The Human Services Advisory Board has recommended Olde Towne Medical Center (Williamsburg Area Medical Assistance Corporation or WAMAC) receive funding of \$90,000, a 4.7% increase over the current year; and that the Comprehensive Health Investment Program (CHIP) receive \$18,293, a 3.0% increase over the current year.

Finally, the Colonial Services Board, the agency through which the city provides mental health and retardation services to its residents, requests a 4.7% increase in city contribution to \$232,000, based on the multi-jurisdictional funding formula.

2. **Schools.** Based on the School Board's budget at this point in time, and State funding based on General Assembly action, we can expect at this time a city contribution to the operational budget in the amount of \$7,373,898, a 13.5% increase from the current year. The final amount will be determined by formula as set forth in the current five-year city/county Joint School Agreement to be effective July 1, 2007, and the final amount of State support.



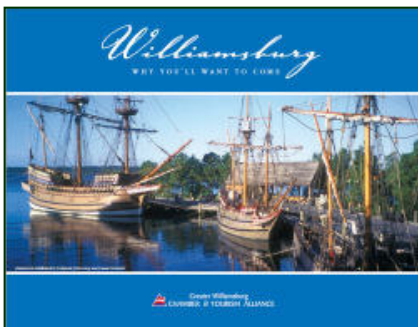
Aerial View of Warhill High School

As a result of current and past school agreements, the city's proportional share of funding for the schools over the past decade has declined, even when funding in absolute dollars increases, and that trend will continue next year. City children numbering 765 now account for 7.62% of the children enrolled in the system. Under the Joint School Agreement, in FY 07 the city pays a share equal to its enrollment times a factor of 1.18. So, the city continues to pay a premium to participate in the joint system. Based on the current enrollment split, and pending completion of the Joint School Agreement, the city's contribution is projected at 9.10% and the county's 90.90%, of local funding for the schools.

3. **Library.** The Williamsburg Regional Library is funded under the revised library agreement with James City County, effective July 1, 2006. That agreement calls for funding of operational costs based on the proportion of circulation by residency.

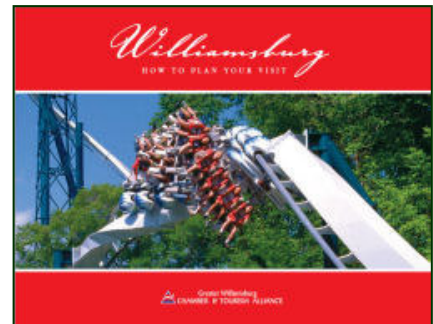
Based on the library's figures, the city/county circulation ratio for fiscal year 2006 was 16.62% city, and 83.38% county. The Library's proposed budget of \$6,443,743 is a 7.0% increase, which would result in an estimated city contribution of \$903,227. Depending on York County's funding level, this number could change.

4. **Human Service Agencies.** The city's Human Services Advisory Board, as requested by City Council, has evaluated Human Services Agency requests for funding, and made its recommendations to City Council. Their analysis and recommendations are in the Appendix to the Proposed Budget. The proposal is a 9.1% increase from the current year in the total amount of \$104,677. The proposed budget follows the Human Services Board's recommendations in all respects.
5. **Community and Economic Development Agencies.** The city has supported tourism advertising and promotion through Colonial Williamsburg and the Greater Williamsburg Chamber and Tourism Alliance.



This year Colonial Williamsburg Foundation has requested \$1,365,000, a 5.0% increase, and I have recommended that amount. The Greater Williamsburg Chamber and Tourism Alliance has requested funding of \$925,000 (which includes \$100,000 for Chamber operations), up 7.2% from the current year amount. I am recommending that the city increase its support for the Alliance by

5.0%. During the three years from FY 02 through FY 05, room tax receipts in the city declined 8.0%, and meal tax receipts increased a scant 2.1%. Fortunately, we have seen a turn around in 2006. Next fiscal year we are projecting a 7.2% increase in room tax, and 5.6% in meal tax. During the years of decline the city nevertheless held its level of promotional funding constant, now the city can reasonably increase its contribution.



The proposed budget also includes an estimated \$1,800,000 of pass through funding from the \$2.00 room surcharge to the Williamsburg Area Destination Marketing Committee's "I am Williamsburg" campaign. This brings the total city tax dollars for tourism promotion to \$4,071,000.

In addition to tourism promotion, the city support is recommended for a number of other agencies that make important economic development and community development contributions to Williamsburg:

Williamsburg Redevelopment & Housing Authority	\$35,000
Hampton Roads Planning District Commission	\$10,988
Peninsula Council for Workforce Development	\$ 5,947
Hampton Roads Economic Development Alliance	\$11,751
Thomas Nelson Community College	
Hampton Campus	\$ 4,267
Williamsburg Campus rental	\$20,000
Hampton Workforce Development Center	\$10,500
Jamestown/Yorktown Foundation	\$10,000
Colonial Soil and Water District	\$ 2,661
Hampton Roads Partnership	\$ 5,325
Hampton Roads Film Office	\$10,000
Williamsburg Land Conservancy	\$10,000
Heritage Humane Society	\$16,000
Williamsburg Farmers' Market	\$ 4,000
Crossroads Coordinating Committee	\$10,000
Jamestown 2007 Host Committee	\$10,000
APVA – Historic Jamestowne	\$15,000
Military and Federal Facilities Alliance	\$ 5,826
Virginia War Museum	<u>\$ 5,000</u>
 Total including CWF, GWCTA, and WADMC	 \$4,273,265

Two new items on the list this year are \$15,000 for the Association for the Preservation of Virginian Antiquities/Historic Jamestowne; and \$5,000 for major funding support of the PBS Civil War in Hampton Roads “Peninsula Campaign” episode – the third in the series. It will feature the 1862 Battle of Williamsburg.

6. **Cultural.** The Williamsburg Arts Commission has again performed the task of receiving, evaluating, and recommending funding for the arts. Their report is copied in the Appendix to the Proposed Budget. They recommend local arts funding of \$140,140, reduced from last year due to one time Jamestown 2007 funding levels.



Festival Williamsburg

Of this amount, the city contribution would be \$65,070. This assumes a state arts commission challenge grant of \$10,000, and county funding of \$65,070. The State grant last year was \$10,000.

City sponsorship for the fifth annual “Festival Williamsburg” is provided again in the amount of \$50,000; and \$5,000 is provided for the city share of a second publication of the regional “Discover the Arts” map.

7. **Transportation.** In 2006 the General Assembly adopted enabling legislation to create the Williamsburg Area Transit Authority to operate Williamsburg Area Transport. The Cooperative Agreement and Bylaws are before the prospective partners this Spring. The partners are James City County, York County, City of Williamsburg, Colonial Williamsburg, and the College of William and Mary. Williamsburg's funding participation will be driven by the Cooperative Agreement. Our estimate of the FY 08 cost to the city will not exceed \$265,000.

Under Transportation are two additional regional partnerships to promote alternatives to highway travel. Continued support for Virginian's for High Speed Rail in the amount of \$5,000 is recommended. The City of Newport News has proposed a new approach to raising funds to underwrite expanded air service at Newport News/Williamsburg International Airport through EDA/IDAs in the region. We do not yet know this will play out, but I suggest we keep \$6,000 in the budget for this purpose.

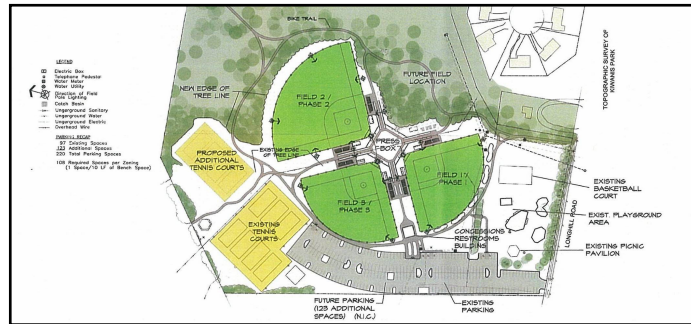
CAPITAL IMPROVEMENT PROGRAM

Revenue to fund the CIP comes from 1% Sales Tax Receipts and funds reserved for capital improvements. This year, CIP items are explicitly linked to City Council's "Goals and Initiatives for the Biennium."

Here are some of the highlights from this year's update of the Five Year Capital Improvement Program:

- Quarterpath Road reconstruction of the northerly segment under a Public-Private Transportation Act (PPTA) Agreement has begun, and will be completed by the end of calendar 2007.
- Underground Wiring on the newly constructed Quarterpath Road will occur as part of the road project.
- Traffic Signal design will occur in FY 08 for three intersections: Richmond Road/Waltz Farm Drive, Second Street/Parkway Drive, and York Street/Quarterpath Road. Installation of these signals is planned for FY 09.
- Corridor Enhancements are planned as part of the Regional Corridor Program for York Street (Route 60); and upgrading of guardrails will continue.
- Sidewalk Upgrades next year are focused on the north side of lower Richmond Road, but depend upon partnerships with abutting property owners. The next project in line is a new sidewalk on Lafayette Street from Harrison Avenue to Wythe Avenue.

- The major Stormwater Project next year is rebuilding the Pollard Park/Griffin Avenue drain and outfall.
- A Public Works storage facility for road salt and equipment is planned.
- Kiwanis Park reconstruction of Field #1 as part of a five year Master Plan is the most significant project next year for Parks and Recreation.



Kiwanis Park Conceptual Plan

- A new Emergency Operations Center and Fire Administration behind #1 Fire Station will break ground in FY 08.
- For the Municipal Center funds for detailed planning of a replacement/rehabbed Stryker Building are provided.
- The Information Technology capital plan includes downtown WiFi expansion, voice response system for Codes Compliance, and various IT infrastructure upgrades.
- The Library is scheduled for a HVAC control system replacement.
- An affordable housing set aside provided to partner with the Williamsburg Redevelopment and Housing Authority.
- W/JCC Schools capital needs including the 4th middle school and 9th elementary school, are identified for city contribution.

The Planning Commission's review of the draft CIP, used in developing the final recommendation, is provided under the Capital Improvements tab.

UTILITY FUND OVERVIEW

The Utility Fund projects \$4,612,480 in operating revenues and a 2.5% increase in operating expenditures. A 10% water rate increase, \$3.00 to \$3.30 per 1000 gallons, is recommended.

A Rate Analysis for the Utility Fund is provided under the Appendix tab in the Proposed Budget. The analysis shows a future with rate increases, and a future with no rate increases. The Rate Analysis is updated annually as part of the budget process. Expensive "new water" from King William Reservoir, purchases of more watershed land, and renewal/replacement of infrastructure, are all in our future. Unlike nearly all other area jurisdictions, the city still does not charge separately for sewage collection and pumping, but rather bears this cost using water revenue. City rates for water and sewer combined continue to be exceptionally low in the region, as shown in Exhibit 3 of the Rate Analysis.

NEXT STEPS

The budget process now moves from the staff level, formation phase, to the Council and public level, adoption phase.

The Budget Work Sessions, principally to look at outside agencies, are scheduled for Monday, March 19 and Tuesday, March 20. The school budget will be reviewed at the Monday, April 9, City Council work session. The formal budget hearing will be advertised for the April 12 City Council meeting. Adoption is scheduled for the May 10 Council meeting.

Jackson C. Tuttle
City Manager